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COMMERCE AND TARIFFS IN THE PHILIPPINES.

THE battle of Manila Bay marked the beginning of a revolution in the commerce of the Philippines. The news of the American occupation of the islands seems to have incited merchants in all parts in the world to lade their vessels with cargoes for Manila. During the last decade of Spanish rule the total exports and imports together averaged about 50 million dollars (Mexican) per annum. In the best year they were 60 millions. In each of the first three years of American rule they were respectively 80, 109, and 120 millions, exclusive of importations for the use of the military establishment. This increase came during the continuance of war and in spite of its ravages. But this marked growth is not the only evidence of a commercial revolution. Trade has changed its direction as well as increased in volume. By discriminating tariff-rates and severe restrictions Spain forced the islanders to import a large part of their wares in Spanish ships and to buy of and sell to Spanish merchants. Fully one-third of the insular trade was with Spain. Nearly all of this has now been diverted to other nations.

The explanation of this revolution is to be found only in the confidence of foreign merchants in the integrity of our govern-

ment and in the expectation of a more regular, just, and liberal administration of commercial law. For it took place largely before there was any prospect of an immediate close of the war, before the wounds industry had suffered were healed, before our civil government had been extended to the provinces and municipalities, before our new tariff policy was declared, and before the influence of our new schools upon native industry could be felt. Moreover, it cannot be attributed to the touch of American energy, for American capital and industrial leadership had not yet been introduced in the islands.

For a clear understanding of the tariff which was recently enacted for the islands by the United States Philippine Commission, it will not be amiss to review, briefly, the history of Philippine commerce and to note the main features of the old Spanish tariff. The story of the ancient commerce of the islands from 1573 to about 1812 is full of interest and of romance, to which we can make but a passing reference. The adventures of the stately royal galleons which plied between Manila and Acapulco, their hair-breadth escapes, or thrilling captures by the bold buccaneers who lay in wait for them off the coasts of California, or at the entrance to the straits of San Bernardino on the other side of the Pacific, would form a story full of incident and interest, but one which would not be altogether pertinent to our present purpose.

It is perhaps a trite observation that the discovery of the Philippines and their final occupation by Spain accomplished the purpose of Columbus's voyage by giving to Europe a new, though long and tedious, route to the Orient. Manila, the first outpost to be held by European traders in the Orient, had peculiar advantages of location. On the one side were the Spice Islands, on the other India and China. Her very situation made her a natural emporium for the most precious wares then known to commerce. With the same energy which had just given Spain an empire beyond the seas the Spaniard set himself to exploit the advantages which this location afforded for trade. To a certain extent he found the ground ready prepared and the

Chinese, who had prepared it, became his willing agents and co-workers. For centuries prior to the coming of the Spaniard the Chinese had frequented the islands by way of trade. They sought there rice, cocoanuts, and palm oil, sugar, various fibers, fine straws and cane, dye-woods and lumber, as the staple products. But they also gathered up a number of the luxuries which were most highly prized in China. These came from the southern and southwestern islands of the group. They were: the succulent sea snails; *beche de mer;* edible birds-nests, white, translucent, gelatin-like in substance, and usually worth their weight in silver; also tortoise shell; pearls and mother-of-pearl. In exchange it is supposed that the Chinese brought the Filipinos cotton, grass linen, and other cloths, silk, and all sorts of manufactured wares, iron and iron implements, and household utensils.

The coming of the Spaniard changed the course of trade. The natives were forced to pay "tribute" or taxes to the crown of Spain. This tribute was paid in kind. Very considerable quantities of the staple products, especially of rice and palm oil were gathered into the government warehouses by the tax-collectors. There the officials bartered them for those wares which the Chinese brought to the islands, and especially for those which at that time were most highly prized in Europe. The clever Chinese soon learned what the newcomers sought. They brought them silk, fine woven fabrics of India and Persia, some gold and jewels, and above all, they scoured the seas for spices. The wares so obtained, representing the revenues of the government, were, once each year, shipped on the state galleon to Mexico, where they were sold on behalf of the crown to cover, in part at least, a regular contribution from the Mexican branch of the treasury of 250,000 Mexican dollars, for the support of the insular government. This was the main purpose for which the galleon sailed. But incidental to this, permission was granted to sundry adventurers, favorites of the king, prominent officials, members of the religious orders, and a few pensioners, to ship similar goods in the same manner. When the ship returned to

the islands she brought back, besides barrels upon barrels full of Mexican silver dollars, Spanish wines, and manufactures of Europe.

In bulk this ancient trade was never large, but, owing to the costliness of the wares exchanged, it was extremely profitable. One lonely ship each year, and that not a large one, plowing its way through a dreary waste of waters, scarcely accords with our modern idea of a large and lucrative trade. Occasionally the galleon found a dull market in Mexico, but usually the profit was from 100 to 400 per cent. For many years it was restricted by law to 100 per cent. But, small as was the body of goods exchanged, this traffic made, in one important respect, a deep and lasting impress upon the commerce of the world. It gave the Orient its present standard coin of trade, the dollar. For many years before the Mexican dollar began to invade the English colonies on the coast of North America, for two centuries before its counterpart became our national standard, that most interesting of all coins was being poured into the Orient through Manila in large quantities. As has been said, the regular shipments in coin, on the account of the government alone, amounted to $250,000 each year. The returns on private shipments of goods swelled this considerably and in some years the galleon carried over as much as $3,000,000. That an insular population, which as late as 1787 barely reached 900,000 Christian souls, could not absorb this vast amount of metal needs no demonstration. It simply flowed away in the regular course of trade, and hence it is that today China, Japan, the straits settlements, and practically all the "Far East," use the Mexican dollar, or a coin very similar to it, for the bulk of their trade.

From the very first the Spaniards levied a tariff upon this lucrative trade. Legaspi, the first governor, was but barely established in power before he opened the customhouse in 1573. This early tariff was not especially designed for the Philippines. It was the ancient "*almojarifazgo*," whose quaint Moorish name is so suggestive of its antiquity, which had been

imposed by the laws of the Indies upon all the territories to be discovered beyond the seas which were granted to Spain by the bull of pope Alexander VI. It is strikingly characteristic of the conservatism of the Spanish government that the tariff which was in force in the Philippine Islands at the time of the American occupation still embodied the main features of this hoary old tariff. These features were: first, that the classification of the imports was based upon their origin. Thus, goods of Chinese origin bore one rate, those of European origin another. Second, that goods of Spanish origin and goods which came in Spanish ships were favored by lower rates. The result of the combination of these two principles was that all goods were scheduled under four classes: (1) those of Spanish origin which came in Spanish bottoms, (2) those of Spanish origin, in foreign bottoms, (3) of foreign origin, in Spanish bottoms, and (4) of foreign origin, in foreign bottoms. Although the Spanish tariff passed through numerous revisions, and although the character of the trade of the islands underwent at least two fundamental changes, the first due to the loss of Manila's supremacy in the oriental trade after 1800, and to the abandonment of the Mexican connection; the second due to the opening of the Suez canal, yet these two principles were never abandoned. The resulting tariff was one which took the interests of the consumers and the equities of the distribution of the burden of taxation among the taxpayers but little into consideration. The main objects appear to have been to get the largest possible revenues and to conserve the interests of the Spanish merchants. The tariff so developed was one which discriminated in a marked way against the poor and in favor of the rich. For example, cotton cloth and rice, the poor native's dress and food, paid duties which averaged, in later years, about 26 per cent. and 19 per cent. respectively, while silks and prepared foods paid only 20 per cent. and 9 per cent. respectively, and the duty on champagne was only 17.7 cents per liter, and that on pianos was nominal.

The tariff included export duties, and the rates for these fell into three classes, according to the destination of the wares and

the flag under which they sailed. All goods exported paid a small duty, but some fifteen enumerated articles paid special rates. Although the rates of the import duties were expressed in the *ad valorem* form they were, in fact, specific. For all goods imported were valued according to a fixed table of official valuations which was seldom revised, and had no necessary connection with the true or market values.

As soon as possible after the surrender of Manila, the United States military government reopened the customhouse with military officers in charge and soldiers for assistants. In accordance with the general policy of restoring, so far as possible, the legal and economic conditions which had been disturbed by war, the government put the old Spanish tariff into effect. Many were the difficulties which confronted the officers placed in charge of the customhouse. Few of them had even a limited familiarity with tariff administration. The laws they were to administer were all new to them and not at all clear, for the true bearing of tariff laws can be known only in the light of experience. But the soldier tax-collectors struggled manfully with the situation, and after some months brought order out of chaos. The necessity for a thorough revision of the tariff was so apparent that it was early undertaken by the military authorities. But the labors of the board of officers appointed for this purpose were superseded by the United States Philippine Commission, which began a revision as soon as it arrived in Manila.

The principles which guided in this revision were simple and few. The working out of these principles, in the multitude of details which enter into a tariff, was tedious and difficult. The work was done with great care, and every effort was made to learn all the facts necessary to the formulation of a just and equitable system. The tariff, first carefully prepared by experts, was worked over in private session by the Commission, then discussed in public meetings for several weeks in Manila, and after being tentatively adopted, was forwarded to Washington for approval. There it was printed and submitted to the merchants of the United States for their criticism and suggestions. Then

it was returned, with some amendments, to the Commission, again published and discussed in public sessions in Manila, finally passed September 17, 1901, and went into effect November 15, 1901. Thus every interest had ample opportunity to be heard. The government of the islands being still under the war powers of the President, no action of Congress was necessary to give the tariff validity. But the re-enactment of this tariff by Congress, in the general bill approved March 8, 1902, will give this tariff validity whenever a state of peace is declared and the insular government passes from the war department.

The first consideration in the formation of the new tariff was revenue. Under Spanish rule, the tariff had yielded about one-third of the total revenues. But the reduction of the internal revenues due to the disordered condition of the country, and the rapid increase in the commerce of the islands after the battle of Manila Bay, changed these proportions so that, prior to the enactment of the new tariff, the customhouse was furnishing about seven-eighths of all the income. It appeared to be highly inexpedient, in the disturbed state of the country, to resort to heavy internal taxation, save possibly for local purposes. Some of the old sources of revenue used by the Spaniards, like the lottery, the monopolies, and the sale of indulgences, could not well be resorted to. The principal Spanish internal taxes, the poll tax and the income tax, were fair enough in principle, but needed a thorough revision as to rates, to bring them to their proper revenue-yielding capacity. To do this and to organize the administrative force for the collection of internal taxes will take much time, and can be done only when the islands are thoroughly pacified. For the present, therefore, the Commission is practically obliged to depend upon the customs revenue for the funds with which to carry out the necessary reforms of government, to make the much needed internal improvements, and to develop the resources of the islands. It was assumed that a reduction in the rates of the tariff in most instances, and a fairer redistribution of the burden in general, would stimulate trade and increase the revenues. The Spanish tariff imposed an

average burden slightly over 20 per cent., and it was determined that the new duties should not, save in exceptional instances, go below 10 per cent. nor exceed 15 per cent.

The second consideration was equality of taxation, by which is meant in this case, relatively low duties upon the commodities used by the poor and relatively high duties on those used by the rich. This, as has been stated, is exactly the reverse of the practice under the Spanish régime. Aside from these two guiding principles it was thought wise to afford incidental protection to a few of the weaker but more promising industries of the islands, and to foster, so far as it was possible in the classification merely, the introduction of American wares into the islands.

The duties imposed are almost entirely specific. The only important exceptions to this rule are precious stones, watches, and small water craft, all of which pay ad valorem. But a minimum ad valorem rate is fixed in connection with the specific rate in the case of certain classes the items in which vary largely in value.

To understand the effect of any tariff it is necessary to know something of the ordinary course of trade. This has changed materially since the days of romance, above referred to, when Manila was the great European emporium in the Orient for the precious wares of China, India, and the Spice Islands. Long years ago, Singapore, Hongkong, and Shanghai stole away Manila's supremacy in the oriental trade. The commerce of the Philippines now rests entirely upon the insular products. It is larger in bulk, and more beneficial to the masses of the people than of old, but less lucrative to the dealers. In ancient days it was found necessary to limit the profit to 100 per cent. Such a limit today would of course be a dead letter. But the foundations of trade are now more solid. It rests upon four great staples, hemp, tobacco, sugar, and copra, with great possibilities for two more, coffee and rubber. The advantages which the islands have in the production of these wares are so great that their hold on the markets can never be shaken. The

imports of the islands are extremely varied, but cotton cloth, in many varieties, and rice are the most important articles. The Filipinos do not raise all their own food and manufacture but little of their own clothing. Rice, the chief article of diet, used to be an article of export. But since the opening of the Suez canal the market for the great staples has been so much more available that the land could be put to better use than raising so unremunerative a crop as rice. Hence there is an ever increasing importation of rice, which comes mainly from French China, sailing generally from the port of Saigon. Cotton cloth, supplemented by the gauzy, native fabrics woven of hemp, forms the dress of the natives. A coarse, short staple, tree cotton is raised in considerable quantities in the islands but is not used for cloth; long staple cotton can and has been grown on the west coast of northern Luzon. The natives have much skill in spinning and weaving by hand, but it is hopeless for them to compete with the output of the English and German mills.

Some observers have been inclined to regret that the Philippines should become dependent on the outside world for food and clothing and many plans have been proposed for restoring to them their self-sufficiency. These plans will all prove futile, for the best interests of the islanders lie in other directions. The greatest advantage lies in the further development of the great staples for which there are such excellent and so secure markets. The average native can get more rice by way of trade for a day's labor on the sugar plantation or cleaning *abacâ* than for many days in the muddy paddy fields, or more cotton cloth for the same labor than his whole family could make in a week.

Any reduction in the import price of these two commodities, rice and cotton cloth, will be a direct stimulus to insular industry and to the production of the great staples for export by reducing the cost of production. The necessity for revenue forbade the entire removal of the duties on cotton fabrics. The same consideration, as well as the fact that, owing to the force of custom in retaining prices at their old level, a large part of the benefit of any reduction in the duty on rice would for some time to

come accrue to the great rice-cleaning mills, determined the retention of the duty on rice. The new duty on rice, 40 cents per 100 kilos, is a trifle under 12 per cent. at last year's prices. It is as yet very difficult to determine how heavy the new duties on cotton cloth will prove to be, on account of the changes in the classification and the probable changes in the grades imported which will result. But it is safe to say that the average will not be far from 12 per cent. The rates on these two articles were the result of long deliberation. The experts who prepared the first draft recommended very low duties, especially so on rice. The Commission was at first inclined to favor a program embracing "free food and free clothing for the poor natives." But the fervor of their missionary zeal was in this instance overcome by the practical necessity for revenue. The final outcome is a rate which in each instance is probably at the point of highest returns; or in other words is not high enough to restrict importation and not so low as to sacrifice any of the interests of the treasury. It has been estimated that the old duty on rice, including its effect on the price of home grown rice, cost the natives on the average $1.80 per annum. On the same basis the new duty will cost him $1 per annum. But as the tendency is for the insular production of rice to fall off and the importations to increase—a tendency which the reduction in the duty will directly foster—it may reasonably be anticipated that the revenue from this tax will increase in spite of the reduced rates.

Direct discrimination in favor of goods coming from the United States could not be made without giving the same advantage to Spain under the provisions of the treaty of Paris. That, in view of the advantage which Spain would enjoy through her old connections, would not be to foster the growth of American trade. But the tariff contains a number of arrangements which it is supposed will work to the advantage of our continental wares. The great reduction of the duties on flour, canned goods, preserved meats, and prepared foods is the most notable of these. The duties on cotton goods are levied by weight and vary with the fineness and closeness of the weave, or the number of threads

to the square inch. The schedules of rates are so arranged that the heavily clayed fabrics of Germany and England, although more open than our more honest cloths, will, on account of the greater weight with the clay, pay a higher duty per yard than those of ours with which they must directly compete. If American manufacturers will but take the pains to adapt their wares to the native tastes there is nothing to prevent our cottons from controlling the markets. The English and German traders in the islands have a saying that "nothing sells well among the natives save what is cheap and nasty." This is not strictly true. The germ of truth behind it is that the native has a decided taste for certain colors and combinations of colors and his expenditure for dress is limited. He wants gaudy colors and cannot pay high prices. But he appreciates durability and is smart enough to know the difference between clay and cotton thread.

The protective features of the tariff are not striking. It was hard to introduce very heavy protection in a tariff which ranges from 10 per cent. to 30 per cent. There are indeed, no manufactures proper in the islands that call for protection. The principal manufactures which exist are either in the preparation of the natural products for the market, as the manufacture of cigars, or the purely domestic industries, like the hand weaving in the households of the native fabrics, the sinamay, jusi, tinampipi and piña. But to encourage these latter industries, which seem to be of some promise, certain raw materials are admitted at low rates. This is true of cotton, cotton yarn, silk and other fibers. On the other hand the duties on loosely woven and other fabrics which might compete with the native fabrics are relatively high. The natives are cunning workers in gold and silver, so the tariff on jewelry is quite heavy, while the raw materials are either free or admitted at low rates. For the same reason the manufacture of rough clay hollow-ware is also slightly protected. A deliberate attempt to foster an infant industry is found in the case of soap. Large quantities of cocoanut oil and copra are exported to France where the oil is made

into fine toilet soaps. It was thought that this was an industry which might well engage native labor so the duty on soap of this variety was fixed at from 10 to 20 cents a kilo, and the export duty on copra was doubled.

The main purpose of the whole revision aside from obtaining larger revenues, was to afford a more equitable distribution of the burden. This was attained, so far as possible, by lower rates for the poor man's goods and higher rates for the rich man's wares. Thus pianos now pay from $30 to $100 each, and the duty on champagne was raised to 85 cents per liter. Other luxuries are taxed in like proportions. But after all, the necessity for revenue, which compelled the retention of the duties on food and clothing will throw the heavier burden on the poor man. For the $1 per annum which he pays on his rice means more to him and cuts into his living more than does the 85 cents a liter levied on the champagne of the rich mestizo. This is an unfortunate result that could scarcely be avoided.

The new tariff has not been in force long enough to enable us to judge of its effect. The published reports for the first few months show a continuance of that gratifying increase in the commerce of the islands which set in immediately after the battle of Manila Bay. There is also a marked increase in the revenues. But it is, as yet, impossible to determine how far this increase may have been due to the holding back of shipments in anticipation of the decreased duties.

The special export duties on hemp, indigo, rice, sugar, copra and tobacco were retained, but the rates have been somewhat reduced. The export duty on rice will tend to keep the domestic rice in the islands and in so far to reduce its price to the consumers. The retention of these duties arises from the necessity for revenue. The effect on the production and sale of these great staples is scarcely appreciable, as their hold on the markets is too strong to be affected by these light duties.

The existence of a customhouse in each of the ports of the islands will tend to restrict the insular commerce to the exportation of the local products. With any tariff Manila can ill com-

pete with the great free ports of Hongkong and Singapore for that share of the collecting or depot trade of the Orient to which she seems entitled by virtue of her central location, with China and India on the one hand and the Spice Islands and Australia on the other. The question as to whether the tariff is a temporary expedient or a permanent measure has not been decided. The happiest solution of the whole problem for the people of the islands would be to make Manila a free port. With the solid basis afforded by the trade in the insular products she might then win back her old position as an emporium for all oriental wares and possibly outrival Hongkong and Singapore. With open ports the internal trade and prosperity of the islands would, after a few years, increase to such an extent that the necessary revenues could be raised by moderate internal taxes. We have thus far dealt broadly and liberally with our brothers of Malay origin and our every effort has been to interpret that May-day born relationship between us entirely in his favor. We have placed his well-being in the hands of a missionary board composed of gentlemen who are fully alive to our newly remembered duty to "teach all nations." The result, so far as commerce is concerned, has been that the encircling wall of tariff restrictions which now surrounds the Philippine Islands is probably as well calculated to benefit native industry and to promote insular well-being as any tariff which could be devised. It being granted that there must be a tariff this arrangement is far happier for these tropical islands than it would be for them to be enclosed in that tariff wall which we have erected to protect our states in the temperate zone. But if we can eventually give them free ports and thus establish a veritable open door to the Orient they will have additional reason to celebrate on each recurring May-day, the liberties which were heralded by Admiral Dewey's guns.

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